

**FISCAL YEAR 2012  
MONITORING REPORT  
ON THE  
HAWAII  
VOCATIONAL REHABILITATION  
PROGRAM**



**U.S. DEPARTMENT OF EDUCATION  
OFFICE OF SPECIAL EDUCATION AND  
REHABILITATIVE SERVICES  
REHABILITATION SERVICES ADMINISTRATION**

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# SECTION 1: EXECUTIVE SUMMARY

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## Background

Section 107 of the Rehabilitation Act of 1973, as amended (Rehabilitation Act), requires the Commissioner of the Rehabilitation Services Administration (RSA) to conduct annual reviews and periodic on-site monitoring of programs authorized under Title I of the Rehabilitation Act to determine whether a state vocational rehabilitation (VR) agency is complying substantially with the provisions of its State Plan under section 101 of the Rehabilitation Act and with the evaluation standards and performance indicators established under Section 106. In addition, the commissioner must assess the degree to which VR agencies are complying with the assurances made in the State Plan Supplement for Supported Employment (SE) Services under Title VI, part B, of the Rehabilitation Act.

Through its monitoring of the VR and SE programs administered by the Hawaii Vocational Rehabilitation and Services for the Blind Division (VRSBD) in fiscal year (FY) 2012, RSA:

- reviewed the VR agency's progress toward implementing mutually agreed upon goals and strategies developed by VRSBD and RSA during the prior monitoring cycle (FY 2007 through FY 2010);
- reviewed the VR agency's performance in assisting eligible individuals with disabilities to achieve high-quality employment outcomes;
- recommended strategies to improve performance and required corrective actions in response to compliance findings related to three focus areas as warranted, including:
  - organizational structure requirements of the designated state agency, the Hawaii Department of Human Services, and the designated state unit, VRSBD;
  - transition services and employment outcomes for youth with disabilities; and
  - the fiscal integrity of the VR program;
- identified emerging practices related to the three focus areas and other aspects of the VR agency's operations; and
- provided technical assistance to the VR agency to enable it to enhance its performance and to resolve findings of noncompliance.

The nature and scope of this review and the process by which RSA carried out its monitoring activities, including the conduct of an on-site visit from April 9 through 13, 2012, is described in detail in the [FY 2012 Monitoring and Technical Assistance Guide for the Vocational Rehabilitation Program](#).

## Emerging Practices

Through the course of its review, RSA collaborated with VRSBD, the State Rehabilitation Council (SRC), the Technical Assistance and Continuing Education (TACE) center and other stakeholders to identify the emerging practices below implemented by the agency to improve the performance and administration of the VR program.

## **Transition**

- **Statewide Summer Work Experiences:** Summer work experiences are arranged by VRSBD for youth in high school with employers, community rehabilitation providers and partners as on-the-job trainings to increase their exposure to work opportunities and possible careers.
- **Statewide Transition Committee:** This committee, comprised of VRSBD representatives from each of the four counties in Hawaii (including staff from blind and deaf services), identifies the need for and develops programming to address challenges encountered in the provision of services to transition-age youth. Committee members also exchange practices that can be replicated on each island. The committee enables VRSBD to promote effective programming statewide and at the regional and local offices.

A more complete description of these practices can be found in Section 3 of this report.

## **Summary of Observations**

RSA's review of VRSBD resulted in the observation related to the focus area identified below. The entire observation and the recommendations made by RSA that the agency can undertake to improve its performance are contained in Section 5 of this report.

### **Organizational Structure of the DSA and DSU**

- VRSBD does not engage in adequate representation on each of the local workforce investment boards (LWIB), specifically in Oahu, or on the State Workforce Investment Board (SWIB).

## **Summary of Compliance Findings**

RSA's review resulted in the identification of the compliance findings specified below. The complete findings and the corrective actions that VRSBD must undertake to bring itself into compliance with pertinent legal requirements are contained in Section 6 of this report.

- VRSBD has entered into an agreement with the state educational agency (SEA) that is not in compliance with the minimum federal requirements.
- VRSBD has not developed memoranda of understanding with the LWIBs throughout the state of Hawaii.
- VRSBD is not in compliance with federal requirements regarding the allocation of personnel costs because it does not maintain personnel activity reports for employees working on more than one grant program, does not maintain periodic certifications for employees working solely on one grant and may improperly charge salary expenses for staff working on VR and other programs solely to the VR award.
- VRSBD's financial management of the VR program is not in compliance with federal requirements because it does not submit accurate financial reports to RSA, reconcile contract expenditures against established budgets, monitor contracts to determine if performance goals are met or to verify that the expenditures are in compliance with all federal requirements, and have an approved cost allocation plan through which it is

permitted to charge indirect costs.

## **Development of the Technical Assistance Plan**

RSA will collaborate closely with VRSBD and the TACE to develop a plan to address the technical assistance needs identified by VRSBD in Appendix A of this report. RSA, VRSBD and the TACE will conduct a teleconference within 30 days following the publication of this report to discuss the details of the technical assistance needs, identify and assign specific responsibilities for implementing technical assistance and establish initial timeframes for the provision of the assistance. RSA, VRSBD and the TACE will participate in teleconferences at least semi-annually to gauge progress and revise the plan as necessary.

## **Review Team Participants**

Members of the RSA review team included Tonya Stellar, Jim Doyle and Chris Pope (VR Program Unit); Adrienne Grierson and Katherine Courtnage-Clay (Fiscal Unit); Joe Pepin (Data Collection and Analysis Unit); and Terry Martin (Technical Assistance Unit). Although not all team members participated in the on-site visit, each contributed to the gathering and analysis of information, and the development of this report.

## **Acknowledgement**

RSA wishes to express appreciation to the representatives of VRSBD for the cooperation and assistance extended throughout the monitoring process. RSA also appreciates the participation of the SRC, the Client Assistance Program and advocates, the TACE and other stakeholders in the monitoring process.

## SECTION 2: PERFORMANCE ANALYSIS

This analysis is based on a review of the programmatic and fiscal data contained in Tables 2.1 and 2.2 below and is intended to serve as a broad overview of the VR program administered by VRSBD. It should not be construed as a definitive or exhaustive review of all available agency VR program data. As such, the analysis does not necessarily capture all possible programmatic or fiscal trends. In addition, the data in Table 2.1 measure performance based on individuals who exited the VR program during FY 2006 through FY 2010. Consequently, the table and accompanying analysis do not provide information derived from open VRSBD service records, including that related to current applicants, individuals who have been determined eligible and those who are receiving services. VRSBD may wish to conduct its own analysis, incorporating internal open caseload data, to substantiate or confirm any trends identified in the analysis.

### Performance Analysis

#### VR Program Analysis

**Table 2.1**  
**VRSBD Program Performance Data for FY 2006 through FY 2010**

	Number, Percent, or Average	2006	2007	2008	2009	2010	Change from 2006 to 2010	Agency Type 2010
<b>All Individual Cases Closed</b>								
TOTAL CASES CLOSED	Number	2,215	2,385	1,577	1,805	1,029	-1,186	281,286
	Percent	100.0%	100.0%	100.0%	100.0%	100.0%	-53.5%	100.0%
Exited as an applicant	Number	340	251	218	310	134	-206	47,487
	Percent	15.3%	10.5%	13.8%	17.2%	13.0%	-60.6%	16.9%
Exited during or after trial work experience/extended evaluation	Number	0	2	1	1	0	0	1,708
	Percent	0.0%	0.1%	0.1%	0.1%	0.0%		0.6%
TOTAL NOT DETERMINED ELIGIBLE	Number	340	253	219	311	134	-206	49,195
	Percent	15.3%	10.6%	13.9%	17.2%	13.0%	-60.6%	17.5%
Exited without employment after IPE, before services	Number	27	56	27	44	69	42	5,824
	Percent	1.2%	2.3%	1.7%	2.4%	6.7%	155.6%	2.1%
Exited from order of selection waiting list	Number	0	0	0	239	117	117	1,390
	Percent	0.0%	0.0%	0.0%	13.2%	11.4%		0.5%
Exited without employment after eligibility, before IPE	Number	516	429	297	60	34	-482	68,696
	Percent	23.3%	18.0%	18.8%	3.3%	3.3%	-93.4%	24.4%

<b>All Individual Cases Closed</b>	<b>Number, Percent, or Average</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Change from 2006 to 2010</b>	<b>Agency Type 2010</b>
TOTAL EXITED AFTER ELIBIBILITY, BUT PRIOR TO RECEIVING SERVICES	Number	543	485	324	343	220	-323	75,910
	Percent	24.5%	20.3%	20.5%	19.0%	21.4%	-59.5%	27.0%
Exited with employment	Number	667	577	589	479	303	-364	78,860
	Percent	30.1%	24.2%	37.3%	26.5%	29.4%	-54.6%	28.0%
Exited without employment	Number	665	1,070	445	672	372	-293	77,321
	Percent	30.0%	44.9%	28.2%	37.2%	36.2%	-44.1%	27.5%
TOTAL RECEIVED SERVICES	Number	1,332	1,647	1,034	1,151	675	-657	156,181
	Percent	60.1%	69.1%	65.6%	63.8%	65.6%	-49.3%	55.5%
EMPLOYMENT RATE	Percent	50.08%	35.03%	56.96%	41.62%	44.89%	-10.36%	50.49%
Transition age youth	Number	614	721	418	541	338	-276	100,116
	Percent	27.7%	30.2%	26.5%	30.0%	32.8%	-45.0%	35.6%
Transition aged youth employment outcomes	Number	188	157	164	116	124	-64	27,745
	Percent	28.2%	27.2%	27.8%	24.2%	40.9%	-34.0%	35.2%
Competitive employment outcomes	Number	650	567	556	465	298	-352	73,995
	Percent	97.5%	98.3%	94.4%	97.1%	98.3%	-54.2%	93.8%
Supported employment outcomes	Number	11	13	10	7	7	-4	7,004
	Percent	1.6%	2.3%	1.7%	1.5%	2.3%	-36.4%	8.9%
Average hourly wage for competitive employment outcomes	Average	\$11.02	\$11.53	\$12.07	\$13.19	\$13.21	\$2.19	\$11.33
Average hours worked for competitive employment outcomes	Average	31.7	32.2	33.1	32.0	30.4	-1.3	31.4
Competitive employment outcomes at 35 or more hours per week	Number	371	346	356	282	153	-218	38,784
	Percent	55.6%	60.0%	60.4%	58.9%	50.5%	-58.8%	49.2%
Employment outcomes meeting SGA	Number	473	415	440	341	207	-266	48,900
	Percent	70.9%	71.9%	74.7%	71.2%	68.3%	-56.2%	62.0%
Employment outcomes with employer-provided medical insurance	Number	398	371	366	283	178	-220	18,791
	Percent	59.7%	64.3%	62.1%	59.1%	58.7%	-55.3%	23.8%

## Positive Trends

From FY 2006 through FY 2010, the percentages of individuals who exited the VR program, both prior to, and after, the determination of eligibility, but before services were provided decreased. These percentages were also below the percentages of individuals who exited the VR

program at these stages of the process from all combined agencies in FY 2010. Specifically, the percentage of individuals who exited the VR program as an applicant, prior to eligibility determination declined from 17.2 percent in FY 2009, to 13 percent in FY 2010, below that for all combined agencies of 16.9 percent in the same year. In addition, the percentage of individuals who exited the VR program after eligibility determination, prior to service provision decreased from 23.3 percent in FY 2006, to 3.3 percent in FY 2010, substantially below the performance for all combined agencies of 24.4 percent in FY 2010. Furthermore, the number and percent of individuals who exited the VR system after eligibility was determined and assignment to a waiting list under an order of selection decreased from 239 individuals, or 13.2 percent, to 117 individuals, or 11.4 percent, from FY 2009 to FY 2010.

In FY 2010, the quality of employment achieved by individuals served by VRSBD exceeded the performance of other combined agencies when comparing the percentages of individuals who achieved competitive employment outcomes and worked at least 35 hours or more per week, earned wages equal to or in excess of substantial gainful activity and received employer provided medical benefits as shown above in Table 2.1. The average of 30.4 hours worked per week by individuals who achieved employment was comparable to the national average of 31.4 hours for individuals served by all combined agencies and achieved employment in FY 2010. Also, the average hourly wages earned by individuals who achieved employment increased by \$2.19, or 20 percent, from \$11.02 in FY 2006, to \$13.21 in FY 2010, greater than the national average of \$11.33 for all other combined agencies in FY 2010.

From FY 2008 to FY 2010, VRSBD increased the percentage of youth with disabilities it served compared to all individuals served by the agency whose cases were closed, from 26.5 percent to 32.8 percent. Similarly, VRSBD increased the percentage of youth who achieved employment compared to all individuals who achieved employment, from 24.2 percent in FY 2009, to 40.9 percent in FY 2010. This figure was above the performance achieved by all combined agencies of 35.2 percent for youth whose cases were closed in FY 2010.

### **Trends Indicating Potential Risk to the Performance of the VR Program**

From FY 2006 through FY 2010, the total number of individuals who exited the VR program from any stage of the service delivery process and whose cases were closed decreased by 1,186 individuals, or 53.5 percent. The number and percent of individuals who exited the VR system after eligibility determination with an approved individualized plan for employment (IPE), prior to receiving services, also increased from 27 individuals, or 1.7 percent in FY 2008, to 69 individuals or 6.7 percent in FY 2010. In comparison, 2.1 percent of all cases closed by all combined agencies exited from the same status during FY 2010. Consequently, a smaller number of individuals were able to receive VR services and possibly become gainfully employed. Furthermore, from FY 2006 to FY 2010, the number of individuals who achieved employment decreased by 364, from 667 individuals to 303 individuals. During this time period, the percentage of individuals who exited the VR program after achieving employment, when compared to all individuals who exited the VR program, fluctuated from 30 percent in FY 2006, to 29.4 percent in FY 2010. This percentage was slightly above, but comparable to the performance of 28 percent for all other combined agencies. Although the number of individuals who received services and did not achieve employment decreased by 44.1 percent from 665 individuals in FY 2006, to 372 individuals in FY 2010, the percentage increased from 30 percent



in FY 2006, to 36.2 percent in FY 2010. This percentage exceeded that of 27.5 percent for all combined agencies in FY 2010. As a result, the overall employment rate decreased from 50.08 percent in FY 2006, to 44.89 percent in FY 2010, below the rate for all combined agencies of 50.49 percent in FY 2010.

The total number of individuals who achieved competitive employment declined between FY 2008 and FY 2010, from 556 to 298, while the overall percentage of competitive employment outcomes increased from 94.4 percent to 98.3 percent during the same period, which was greater than the performance of other combined agencies at 93.8 percent.

Similarly, the number of individuals who achieved supported employment decreased from 13 individuals in FY 2007, to 7 individuals in FY 2010. However, the percentage of those whose cases were closed and who achieved supported employment fluctuated, but remained constant at 2.3 percent in FY 2007 and in FY 2010, which was below the performance of 8.9 percent for all combined agencies in FY 2010.

Although the performance of VRSBD on measures related to the quality of employment outcomes were above or comparable to the performance achieved by all combined agencies in FY 2010, some of the quality measures declined from FY 2008 to FY 2010, including those that assess the average hours worked per week by individuals who achieved competitive employment; competitive employment outcomes for persons who worked at least 35 hours per week; employment outcomes through which individuals earned substantial gainful activity, and employment outcomes achieved through which individuals received employer-provided medical insurance. Of the individuals who achieved competitive employment after receiving services during the same period, VRSBD experienced a 3.4 percent decrease in the number of individuals who received employer-provided medical insurance, from 366 or 62.1 percent in FY 2008, to 178 or 58.7 percent in FY 2010. In addition, the average hours worked per week decreased during the period from 33.1 hours in FY 2008, to 30.4 hours in FY 2010. This figure was less than, but comparable to the national average of 31.4 hours for all combined agencies. The percentage of individuals who achieved competitive employment and worked 35 or more hours per week and the percentage of individuals who achieved employment and met the threshold of substantial gainful activity also decreased from FY 2008 to FY 2010.

Throughout the course of the review, RSA discussed both the agency's positive performance trends and those that posed potential risk to the VR program. VRSBD indicated its intent to conduct further analyses to determine the factors contributing to its performance related to the number and percentage of youth served to the total population served, as well as the increase in the number and percentage of youth served who achieved employment. In addition, VRSBD indicated its intent to conduct further analyses to determine the factors contributing to the increase in the number and percentage of individuals exiting from the various stages of the VR program including, after an IPE was developed, prior to service provision, as well as the percentage of individuals exiting the VR service delivery system with and without achieving employment, after services were provided. VRSBD also intends to conduct such analyses with respect to the decline in the number of individuals served who achieved successful employment, the rehabilitation rate and quality indicators. Identifying independent variables that may have contributed to individuals dropping out at various points in the VR service delivery process may

assist the agency to serve more individuals and improve its rehabilitation rate, as well as the quality of employment outcomes achieved.

VRSD attributed the decline in performance to several reasons, including the implementation of an order of selection on October 1, 2008, as well as its limited staff resources as a result of furloughs, government reductions in force and hiring freezes. During the implementation of an order of selection, VRSD closed all priority categories until it opened that for individuals with the most significant disabilities on April 1, 2010. Once VRSD served all individuals with most significant disabilities who were on the waitlist, it opened the significant disability category on April 1, 2011. According to VRSD, it is currently serving all individuals with most significant disabilities and the remaining 734 individuals with significant disabilities who are on the waitlist (as reported by VRSD on April 13, 2012).

VRSD communicated that once the significant disabilities category is open to serve all individuals with significant disabilities, it anticipates that the number of individuals served and cases closed should increase. Furthermore, in FY 2011, the Governor granted an exception to the state of Hawaii's government-wide hiring freeze implemented in FY 2008, enabling VRSD to hire critical personnel and increase the staffing resources to serve more individuals. VRSD indicated that it has revised its State Plan goals and priorities to emphasize the importance of quality employment opportunities for the individuals it serves. With respect to the overall decline in the number of supported employment outcomes achieved by individuals served, VRSD is reviewing community resources and partnerships with service providers.

## Fiscal Analysis

**Table 2.2**  
**VRSD Fiscal Performance Data for FY 2006 through FY 2010**

VR Fiscal Profile	Quarter	2007	2008	2009	2010	2011
Grant amount per MIS	4 <sup>th</sup>	11,254,618	11,052,823	12,882,243	13,232,080	12,899,816
	Latest/ Final*	11,254,618	11,052,823	12,882,243	13,232,080	
Total outlays	4 <sup>th</sup>	9,939,573	14,501,663	14,265,333	8,776,204	3,491,310
	Latest/ Final*	14,300,658	14,412,248	16,368,797	16,329,038	
Total unliquidated obligations	4 <sup>th</sup>	180,200	150,360	51,922	21,556	1,372,307
	Latest/ Final*	0	0	0	0	

<b>VR Fiscal Profile</b>	<b>Quarter</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Federal Share of Total Outlays	4 <sup>th</sup>	6,893,533	11,052,823	10,778,779	5,194,967	0
	Latest/ Final*	11,254,618	11,052,823	12,882,243	12,747,801	
Federal share of unliquidated obligations	4 <sup>th</sup>	180,200	0	51,922	21,556	1,372,307
	Latest/ Final*	0	0	0	0	
Total Federal share	4 <sup>th</sup>	7,073,733	11,052,823	10,830,701	5,216,523	1,372,307
	Latest/ Final*	11,254,618	11,052,823	12,882,243	12,747,801	
Recipient funds	4 <sup>th</sup>	3,046,040	3,448,840	3,486,554	3,581,237	3,491,310
	Latest/ Final*	3,046,040	3,359,425	3,486,554	3,581,237	
Recipient share of unliquidated obligations	4 <sup>th</sup>	0	150360	0	0	0
	Latest/ Final*	0	0	0	0	
Agency actual match (total recipient share)	4 <sup>th</sup>	3,046,040	3,599,200	3,486,554	3,581,237	3,491,310
	Latest/ Final*	3,046,040	3,359,425	3,486,554	3,581,237	

<b>VR Fiscal Profile</b>	<b>Quarter</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Agency required match	4 <sup>th</sup>	1,865,721	2,991,425	2,917,255	1,406,008	0
Agency required match	Latest/ Final*	3,046,040	2,991,425	3,486,554	3,450,167	
Over/under match	4 <sup>th</sup>	-1,180,319	-607,775	-569,299	-2,175,229	-3,491,310
	Latest/ Final*	0	-368,000	0	-131,070	
MOE **	4 <sup>th</sup>					
	Latest/ Final*			3,486,554	3,581,237	
Unobligated funds qualifying for carryover	4 <sup>th</sup>	4,180,885	0	2,051,542	8,015,557	11,527,509
	Latest/ Final*	0	9	0	484,279	
Total program income realized	4 <sup>th</sup>	123,993	44,692	185,561	60,694	0
	Latest/ Final*	123,933	44,692	185,561	60,694	
Total indirect costs	4 <sup>th</sup>	849,863	922,755	729,960	—	—
	Latest/ Final*	839,563	902,293	774,145	—	

\*Denotes Final or Latest SF-269 or SF-425 Submitted

\*\*Based upon Final or Latest SF-269 or SF-425 Submitted

RSA reviewed fiscal performance data from federal FY 2007 through federal FY 2011. Based on the data in Table 2.2 above, the agency matched its grant award through state appropriations in

each fiscal year reviewed and was able to carryover unexpended federal funds in those years for an additional federal fiscal year, with the exception of FY 2008 when the agency did not have carryover funds. The amount of carryover fluctuated from 37 percent of the federal award in FY 2007, to 60 percent of the federal award in FY 2010, and 89 percent of the federal award in FY 2011. Carryover increased between federal FY 2009 and FY 2011, due primarily to the awarding of funds under the American Reinvestment and Recovery Act of 2009 in federal FY 2009.

Based on the data in this table, the agency met its maintenance of effort requirements. VRSBD charged indirect costs to the award from FY 2007 through FY 2009. However, the agency does not have a cost allocation plan approved by its federal cognizant agency, the U. S. Department of Health and Human Services, through which it can charge indirect costs (see Section 6, Finding 4.C of this report). Compliance with matching and maintenance of effort requirements may be recalculated based on adjustments made as a result of this monitoring report.

## SECTION 3: EMERGING PRACTICES

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While conducting the monitoring of the VR program, the review team collaborated with VRSBD, the SRC, the TACE, and agency stakeholders to identify emerging practices in the following areas:

- strategic planning;
- program evaluation and quality assurance practices;
- human resource development;
- transition;
- the partnership between the VR agency and SRC;
- the improvement of employment outcomes, including supported employment and self-employment;
- VR agency organizational structure; and
- outreach to unserved and underserved individuals.

RSA considers emerging practices to be operational activities or initiatives that contribute to successful outcomes or enhance VR agency performance capabilities. Emerging practices are those that have been successfully implemented and demonstrate the potential for replication by other VR agencies. Typically, emerging practices have not been evaluated as rigorously as "promising," "effective," "evidence-based," or "best" practices, but still offer ideas that work in specific situations.

As a result of its monitoring activities, RSA identified the emerging practices below.

### **Transition**

#### **Statewide Summer Work Experiences**

To assist youth with disabilities in career preparation, on-the-job training agreements were developed with three community rehabilitation programs (CRPs) and 23 employers, who interviewed, employed, trained and supervised students that never participated in employment experiences or worked. From FY 2009 to FY 2011, a total of 81 students were recruited, trained and placed into a variety of positions in the community.

Youth with disabilities participated in six-week community-based summer work experiences for a maximum of nineteen hours per week. The summer employment experiences were developed in integrated work settings and supervised by VRSBD staff, employers and CRP staff. Youth with disabilities were paid based on the hours worked and the complexity of the tasks assigned. The programming included instruction on the development and application of work ethics, vocational skills, self-advocacy and self-sufficiency. The program provided ongoing opportunities for youth to share social and work experiences, and to receive individual and group guidance regarding their potential career opportunities. Participants gained hands-on employment skills training and documented experiences to enhance postsecondary opportunities, employability and to determine their future career goals.

## **Statewide Transition Committee**

The committee is comprised of VRSBD representatives from each of the four counties in Hawaii, including staff from blind and deaf services. The committee identifies the need for and develops programming to address challenges, as well as emerging practices across the state of Hawaii that can be replicated on each island. The committee enables VRSBD to promote effective programming statewide and at the regional and local offices.

A complete description of the practices described above can be found on the [RSA website](#).

## SECTION 4: RESULTS OF PRIOR MONITORING ACTIVITIES

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During its review of the VR and SE programs in FY 2012, RSA assessed progress toward the implementation of goals and strategies that VRSBD agreed to during the prior monitoring cycle in FY 2007, and the resolution of findings from that review. The additional technical assistance requested by the agency to enable it to implement these prior goals and strategies and to resolve any outstanding compliance findings is contained in Appendix A of this report titled “Agency Response.”

### Goals

In response to RSA’s monitoring report dated September 7, 2007, VRSBD agreed to implement the goals and strategies below. A summary of the agency’s progress toward implementation of each goal appears below.

**Goal 1:** To improve the quality of VRSBD’s employment outcomes

**Strategy 1:** Define quality outcomes

**Status:** VRSBD defined a quality outcome to include the following four criteria as a client that has:

- achieved employment and meets all of the requirements to close the case successfully;
- increased the number of work hours;
- increased his/her average hourly wage ; and
- participated in work experiences and/or internships in integrated settings.

**Strategy 2:** Set goals with targets

**Status:** VRSBD established goals to annually increase four quality measures, including the number of employment outcomes achieved by individuals; the number of hours worked for those who achieve employment; the average hourly wage earned; and the number of work experience or internship opportunities individuals participate in, prior to securing employment. VRSBD reported that its branch administrators, supervisors and field staff track and review monthly progress on the achievement of the above four quality measures.

VRSBD communicated that it established an employment section on Oahu and assigned three employment specialists to VRSBD’s Services for the Blind, Oahu and Kauai branches, respectively, to increase the number of individuals who achieve employment, as well as the number of hours worked and wages earned. In addition, VRSBD will be temporarily employing employment specialists from the City and County of Honolulu to improve and increase employment outcomes for individuals previously on the deferred waitlist who have employment goals developed and implemented IPEs. Furthermore, the Maui, Kona and Hilo offices use CRPs to assist with job placement services.

**Strategy 3:** Identify and implement policies and procedures



**Status:** VRSBD developed procedures related to the achievement of the four quality measures above to include the identification of baseline data for the number of successful closures; average hourly wage; number of hours worked per week for successful closures; and the participation in work experiences for each state fiscal year by branch.

VRSBD has developed guidance that defines work experience as opportunities that include the Special Education-VR Work Study program, College Work Study, Volunteer Work, Internships (paid and unpaid), and on-the-job trainings. VRSBD will create a new status in its case management system for work experiences, once the system is procured. In addition, it will also develop written policies and procedures to track and monitor work experiences.

**Strategy 4:** Clarify existing service policies

**Status:** VRSBD reported that it has defined work experiences in its policies and procedures and that it will clarify the existing policies and procedures related to vocational guidance and counseling services.

**Strategy 5:** Increased utilization of paraprofessionals in the VR process

**Status:** VRSBD is utilizing Human Service Professionals (HSPs) and Community Service Specialists (CSS) to assist VR participants with achieving employment and improving self-sufficiency. CSSs and HSPs, employed by the City and County of Honolulu will be supervised by a senior VR counselor and will not be performing non-delegable functions that are the responsibility of VR counselors employed by VRSBD. The two main job functions of the CSS and HSP staff will be to assist with the assessment of VR needs and job placement services. A contract has been developed among DHS, VRSBD, and the City and County of Honolulu to provide job clubs, workshops, resume writing, job development and placement, and marketing services for VRSBD.

**Strategy 6:** Implement an electronic case management system

**Status:** A case management system has not been procured to date. A request for proposal (RFP) is currently under development. Previously, VRSBD identified three VR agencies--Nebraska, South Carolina and Maryland--for site visits to collect information related to existing case management systems. Although the initial plan was for the site visits to be completed by August 2008, and the RFP for the purchase of an electronic case management system posted in October 2008, VRSBD postponed the purchase of an electronic case management system due to the implementation of an order of selection in October 2008. It is VRSBD's goal to repost the RFP in June 2012, and execute a contract for the purchase of the electronic case management system by September 30, 2012.

**Strategy 7:** Reduce the emphasis on the number of outcomes as the measure for counselor performance

**Status:** VRSBD prioritized four quality measures and assessed the performance of each counselor on the quality and quantity of employment outcomes achieved. Each counselor's performance is assessed using the following measures: the number of outcomes; the number of individuals who have increased the number of work hours; the number of individuals who have

increased the average hourly wage; and the number of individuals who participate in work experiences and/or internships in integrated settings.

VRSBD reported that as of FY 2010, 310 clients participated in work experience/and or internships.

**Strategy 8:** Explore and adopt policies and practices of other VR agencies that have made improvements

**Status:** Since 2007, VRSBD communicated with other VR agencies to explore relevant policies, procedures and practices. To date, VRSBD has developed an RFP for procurement of an automated case management system (July 2011); completed a memorandum of agreement for UI wage data with the Department of Labor and Industrial Relations to assist with program income reimbursements; defined quality employment opportunities; and developed a “Transition Section” in Oahu Branch and implementing summer youth and paid internships. In addition, VRSBD implemented the summer youth programs on Oahu and within the VRSBD Blind Services Division that offered summer work experiences through on the job training agreements with CRPs and employers.

**Strategy 9:** Reduce the focus on service policies

**Status:** During FY 2007 and FY 2008, VRSBD developed its mission and vision statements, as well as written agency values. All staff participated in the development of the mission, vision and values and in March 2008, VRSBD created posters and employee cards to remind the agency to stay focused on its mission, vision and values.

**Goal 2:** VRSBD will implement a set of internal and external monitoring procedures to better track both the quality of service provision and compliance with the Rehabilitation Act and its implementing regulations. Such a system of self-monitoring should be rigorously designed, on-going, systemic in its approach, and useful for identifying VRSBD staff training needs as well as areas where the agency can improve the quality of its service provision to consumers.

**Strategy 1:** Identify QA staff

**Status:** VRSBD established a case review team in July 2008. The statewide team consists of ten members including branch administrators, counseling supervisors and senior counselors. In August, 2011, VRSBD established a staff specialist position responsible for contracts and contract monitoring.

**Strategy 2:** Implement service record review

**Status:** VRSBD’s case review team and TACE representative meet twice a year. The case review instrument is continuously reviewed for reliability and validity and used to identify training needs, as well as monitor progress. In addition, VRSBD recently hired a staff specialist who is developing contract performance requirements to be used in contract monitoring in collaboration with the state procurement office. VRSBD’s staff specialist is currently coordinating performance reviews with the Oahu branch administrator to monitor utilization and evaluation of contracts.

**Strategy 3:** Hire consumer advocate

**Status:** VRSBD hired a staff specialist as a client liaison in November 2008.

**Strategy 4:** Liaison with consumer groups

**Status:** VRSBD has designated representatives to a variety of consumer organizations, including those of and representing individuals who are blind, deaf and hard of hearing or with mental illness.

**Strategy 5:** Utilize employee exit conference data

**Status:** In January 2012, VRSBD updated its “Exit Debriefing” questionnaire and disseminated an internal communication form to utilize when conducting employee exit conferences for the purpose of identifying training and areas of concern. VRSBD has identified and begun to address issues raised by VRSBD staff to include increasing the opportunities for promotions and staff development training.

**Strategy 6:** Develop external contract review process

**Status:** VRSBD is developing contract performance requirements to be used in contract monitoring. Memorandums of Understanding (MOU) and Memorandums of Agreements (MOA) are being standardized using state contract forms, and must be approved by the state director, procurement officers, and attorney general’s office. In addition, quarterly meetings are being scheduled with vendors.

**Goal 3:** Identify promising practices for the delivery of VR services to individuals who are deaf or hard-of-hearing in order to increase the number and quality of employment outcomes for these individuals.

**Strategy 1:** Comprehensive assessment of deaf needs

**Status:** VRSBD has reviewed and considered information developed by the Hawaii legislature assessing the needs of individuals who are deaf, including the need for a comprehensive service center.

**Strategy 2:** Feasibility study of adjustment center

**Status:** VRSBD reported that it completed a feasibility study of the need for an adjustment center and considered in large part, the information included in the Study of the Establishment of a Comprehensive Vocational Rehabilitation Center for Deaf and Hard of Hearing Individuals (Hawaii’s Legislative Reference Bureau, 2009). In addition, VRSBD entered into a Memorandum of Agreement with the University of Hawaii, Kapiolani Community College Deaf Center/Gallaudet University Regional Center in July 2010, for the provision of deaf adjustment services and the planning, research and grant writing services for developing a comprehensive vocational rehabilitation center for individuals, determined eligible for VRSBD services, who are deaf, hard of hearing and deaf-blind.

VRSD concurs that the establishment of a comprehensive deaf center is necessary. However, it envisions the center being operated by a private, non-profit entity with various funding sources.

### **Strategy 3: Identify gaps in services**

**Status:** VRSD utilized a legislative report to identify the need for personal adjustment and deafness services; computer access training; use of assistive technology services, occupation therapy, home management, and independent living skills. The report identified the need for the following services: job training and coaching, adjustment services and independent living skills, soft skills, mental health counseling, assistive technology demonstration and sales, and interpreter referral services.

VRSD attributed the lack of services to the limited availability of resources on the islands, with the exception of Oahu. In addition, the lack of American Sign Language interpreters compromises the quality of services provided on neighboring islands.

### **Strategy 4: Strengthen advisory board**

**Status:** VRSD established a productive working relationship with the Deaf and Hard of Hearing Advisory Board (DHHAB). DHHAB meets quarterly and the members are updated on VRSD's activities by the Administrator and/or other VR management staff. VRSD reported that it extends an invitation to DHHAB for a member to participate in VRSD interview panels when hiring staff to work with the deaf community. In addition, DHHAB members participate in legislative matters; represent deaf and hard of hearing consumers' needs related to the establishment of the Comprehensive Deaf Center and are actively engaged in advising VRSD on the need for services in the deaf community.

### **Strategy 5: Identify key employment variables**

**Status:** VRSD identified the following employment variables that affect the number of quality employment outcomes:

- availability of training programs that increase employment opportunities;
- availability of opportunities, training and support for self-employment;
- availability of educational programs that enhance the personal, financial and, development of effective communication strategies and self-advocacy skills;
- availability of work experience/internship opportunities;
- augmentation of existing options for professional development for interpreters, teachers and other service providers, to include deaf awareness;
- availability of drivers' education training;
- Suitability of the placement to the consumer's education, ability, and choice;
- the employer's awareness and acceptance of the consumer's hearing loss;
- suitability of the workplace environment for effective communication, operability, maintenance and ease of use of assistive technology;
- effectiveness and skill of supervisor and co-worker to communicate with consumers; and
- availability of assistive technology or interpreters for staff meetings and training.

**Goal 4:** By the end of FY 2009, VRSBD will reduce the VR program funds carried over to less than 20 percent of the federal funds made available to the state each FY.

**Strategy 1:** Analyze total amount of funds to operate the VR program

**Status:** VRSBD and the TACE analyzed the total amount of funds that is required to operate the VR Program. Currently, VRSBD and the TACE are reviewing personnel costs, cost allocation and program costs.

**Strategy 2:** Compare resources with anticipated expenditures

**Status:** VRSBD and the TACE are currently developing fiscal projections for the next four years. Funding and resources considered in the fiscal projections include the Basic Support Grant, non-federal share or state appropriations, federal reallotment funds, SSA reimbursement or program income, and carryover funds from previous federal fiscal years. VRSBD is also projecting anticipated expenditures including, personnel costs (salaries/fringe benefits), administrative and indirect costs and purchased services.

**Strategy 3:** Assess whether funds are adequate to operate the VR program

**Status:** VRSBD and the TACE assessed and determined that its non-federal funds through state appropriation adheres to the matching requirements for federal funds to be appropriated as described at 34 CFR 361.60(b) and 34 CFR 80.24 of the Education Department General Administrative Regulations. The combined federal appropriation and non-federal share meets the needs of Hawaii's VRSBD to provide services to individuals with most significant disabilities, persons with significant disabilities on the deferred waitlist and to employ 104 full time equivalents.

**Strategy 4:** Identify one-time expenditures to spend down any surpluses

**Status:** VRSBD identified the following one-time expenditures to spend down its unobligated federal funds:

- automated case management system: \$1 million
- start-up cost for the Comprehensive Deaf Center: \$300,000 - \$500,000
- one-year cost for nine temporary Human Services Professionals: \$800,000
- administrative/staff services office relocation: \$200,000
- Ho'opono building renovations: \$200,000
- One-year cost for 10 Temporary FTEs: \$577,723

**Strategy 5:** Develop plan to achieve 20 percent carry over goal

**Status:** In FY 2010, VRSBD exceeded its goal to carry over 20 percent of its allocated funds with 61 percent of its federal funds unobligated and carried over into FY 2011. VRSBD is developing its fiscal management processes and will be forecasting its federal funds and carryover for FYs 2011 through 2014. VRSBD developed and implemented a monthly branch fiscal reporting procedure and quarterly fiscal meetings with branch administrators in order to discuss branch budgets, as well as anticipated expenditures.

## **Goal 5: Improve the accuracy of the RSA-2 Report**

**Strategy 1:** Review each line item on Schedule II of this report to ensure that all expenditures and client counts are accurate.

**Status:** VRSBD implemented this strategy and a process by which fiscal staff prepare various reports and all reports are reviewed by fiscal staff supervisors to improve the accuracy of RSA-2 reporting.

**Strategy 2:** RSA will be consulted to clarify reporting requirements

**Status:** VRSBD consulted RSA regarding reporting requirements and RSA staff clarified questions submitted to date.

**Strategy 3:** A teleconference will be held with RSA to discuss the review results and any corrections made to previously reported data.

**Status:** VRSBD's fiscal accountant attended two training sessions on the development and submission of the RSA-2 Report during the FY 2009 RSA National Fiscal Conference.

## **Technical Assistance**

During the course of its FY 2012 monitoring activities, RSA provided technical assistance related to VRSBD's implementation of mutually agreed upon goals and strategies developed through the FY 2007 review and the FY 2008 implementation of an order of selection. Specifically, RSA provided guidance to VRSBD related to the permitted provision of information and referral services for eligible individuals with disabilities who do not meet Hawaii's order of selection criteria. RSA emphasized that VRSBD must ensure that individuals with the most significant disabilities, who satisfy Hawaii's order of selection criteria, have priority in terms of the use of all available resources. Furthermore, RSA communicated that VRSBD will not use case services funds that are needed to provide VR services to eligible individuals who are able to be served under the designated State unit's order of selection (Notice of Proposed Rulemaking (NPRM), 60 Fed. Reg. 64475, 64486 (Dec. 15, 1995)).

RSA also provided guidance regarding federal requirements related to non-delegable functions that can only be performed by VRSBD VR counselors as VRSBD contracts Human Service Professionals and Community Service Specialists employed by the City and County of Honolulu.

Finally, RSA provided extensive technical assistance regarding the federal statutory and regulatory requirements related to the establishment of a CRP, as VRSBD is currently engaged in the pre-planning process to establish a comprehensive deaf rehabilitation center. This technical assistance included, but was not limited to, a review of VRSBD's most recent comprehensive statewide needs assessment and the requirement to include the need to establish a CRP for deaf services, and demonstrating the deaf and hard of hearing population as being an unserved or underserved population within the state. RSA also provided an analysis of the deaf population served by VRSBD over the past several years, including the services provided and the outcomes achieved. In addition, RSA provided the requirements related to establishment projects such as the provision of VR funding for start-up equipment, staffing up to the first four

years of the project, construction or expansion of a building, the acquisition of a building and, when necessary, land, and other expenditures related to the establishment, development or improvement of a CRP.

## **Compliance Findings and Corrective Actions**

The monitoring conducted by RSA in FY 2007 did not result in the identification of compliance findings and VRSBD did not develop a corrective action plan.

## SECTION 5: FOCUS AREAS

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### **A. Organizational Structure Requirements of the Designated State Agency (DSA) and Designated State Unit (DSU)**

The purpose of this focus area was to assess the compliance of VRSBD with the federal requirements related to its organization within Hawaii's Department of Human Services (DHS) and the ability of the VRSBD to perform its non-delegable functions, including the determination of eligibility, the provision of VR services, the development of VR service policies, and the expenditure of funds. Specifically, RSA engaged in a review of:

- compliance with statutory and regulatory provisions governing the organization of DHS and VRSBD under 34 CFR 361.13(b);
- processes and practices related to the promulgation of VR program policies and procedures;
- the manner in which VRSBD exercises responsibility over the expenditure and allocation of VR program funds, including procurement processes related to the development of contracts and agreements;
- procedures and practices related to the management of personnel, including the hiring, supervision and evaluation of staff; and
- the manner in which VRSBD participates in the state's workforce investment system.

In the course of implementing this focus area, RSA consulted with the following agency staff and stakeholders:

- DHS and VRSBD directors and management staff;
- DHS and VRSBD staff members responsible for the fiscal management of the VR program;
- VRSBD staff co-located at the Oahu one-stop service delivery system;
- SRC Chairperson and members;
- Client Assistance Program staff; and
- TACE center representatives.

In support of this focus area, RSA reviewed the following documents:

- a diagram illustrating the DSU's position in relation to the DSA, its relationship and position to other agencies that fall under the DSA, and the direction of supervisory reporting between agencies;
- a diagram identifying all programs from all funding sources that fall under the administrative purview of the DSU, illustrating the number of full-time equivalent (FTE) staff working on each program;
- the number of FTEs in each program, identifying the specific programs on which they work and the individuals to whom they report, specifically including:
  - individuals who spend 100 percent of their time working on the rehabilitation work of VRSBD;



- individuals who work on rehabilitation work of VRSBD and one or more additional programs/cost objectives (e.g., one-stop career centers); and
- individuals under VRSBD that do not work on rehabilitation projects of the DSU.
- sample memoranda of understanding (MOUs) and/or cost allocation plans with one-stop career centers; and
- documents describing the State of Hawaii’s procurement requirements and processes.

## Overview

VRSBD, the DSU and sole agency responsible for the administration of the VR and SE programs, is located within DHS, the DSA. The DSA is administered by a department director who reports to the Governor. The DSA consists of four divisions, including VRSBD; the Benefit, Employment and Support Services Division; the Social Services Division; and the Med-Quest Division, as well as nine other administrative branches, all of which report directly to the director of DHS. VRSBD is at a level comparable to the four main divisions.

The director of VRSBD administers an office and six branches, including the Staff Services Office; the Disability Determination Branch; the Hawaii, Maui, Kauai and Oahu Branches; and the Services for the Blind Branch. As of March 12, 2012, VRSBD reported a total of 149.5 FTE positions, of which two were assigned as administrative support to the division director, eight were located in the Staff Services Office, 44 in the Disability Determination Branch, 65.5 in the VR program Branch Offices, and 27 in the Services for the Blind Branch. In addition, three FTEs, consisting of one accountant, one accounting clerk and an IT staff person, support VRSBD and are under the administration of DHS. Of the 65.5 FTEs assigned to the VR program Branch Offices, 40 are identified as VR counselors, of which seven positions were vacant in March 2012.

RSA’s review of the organizational structure VRSBD resulted in the identification of the following observation and recommendations. The technical assistance requested by VRSBD to enable it to carry out these recommendations is contained in Appendix A to this report titled “Agency Response.” In addition, the compliance findings identified by RSA through the implementation of this focus area are contained in Section 6 of this report.

## Observations and Recommendations

### 5.B.1. Representation on the Workforce Investment Boards

**Observation:** VRSBD does not engage in adequate representation on each of the LWIBs, specifically Oahu, or on the SWIB.

- Hawaii has established four LWIBs that serve eleven one-stop centers throughout the state. The four LWIBs, which include Oahu, Hawaii, Maui and Kauai, have an assigned staff person to represent VRSBD. Each of the designated VRSBD staff assigned to the LWIB to represent the VR program is active with the exception of the Oahu local area. According to information obtained during RSA’s review, the Oahu LWIB representative has not attended any board meetings during the past three years.

- VR is currently represented on the SWIB by the director for VRSBD. According to information obtained by RSA during the monitoring process, the director has not attended any board meetings since 2008. As a result, VRSBD has not had adequate representation at the state level concerning decisions affecting Hawaii's statewide workforce investment system.

**Recommendation 5.B.1:** RSA recommends that VRSBD:

- 5.B.1.1 ensure that all VRSBD representatives actively participate with the LWIBs in Hawaii, most notably the Oahu system; and
- 5.B.1.2 ensure that VRSBD effectively represents the VR program on the SWIB by attending all meetings.

**Technical Assistance**

RSA provided technical assistance to VRSBD related to this focus area during the course of its monitoring activities. Specifically, RSA provided guidance to VRSBD concerning the requirement that a MOU governing operations of the One-Stop service delivery system in a local area be developed and executed with each LWIB and VRSBD as a mandatory partner in the workforce system. In addition, RSA explained the requirement and benefits for VRSBD to provide representation on the LWIBs across the state pursuant to Section 117 of the Workforce Investment Act (WIA). Finally, RSA explained the benefits for the VRSBD representative to actively participate on the SWIB as an appointed member, pursuant to Section 111(e) of WIA.

## **B. Transition Services and Employment Outcomes for Youth with Disabilities**

The purpose of this focus area was to assess VRSBD's performance related to the provision of transition services to, and the employment outcomes achieved by, youth with disabilities and to determine compliance with pertinent federal statutory and regulatory requirements.

Section 7(37) of the Rehabilitation Act defines "transition services" as a coordinated set of activities for a student, designed within an outcome-oriented process, that promotes movement from school to post-school activities, including post-secondary education, vocational training, integrated employment (including supported employment), continuing and adult education, adult services, independent living, or community participation. The coordinated set of activities shall be based upon the individual student's needs, taking into account the student's preferences and interests, and shall include instruction, community experiences, the development of employment and other post-school adult living objectives, and when appropriate, acquisition of daily living skills and functional vocational evaluation.

In the course of implementing this focus area, RSA identified and assessed the variety of transition services provided in the state, including community-based work experiences and other in-school activities, and post-secondary education and training, as well as the strategies used to provide these services. RSA utilized five-year trend data to assess the degree to which youth with disabilities achieved quality employment with competitive wages. In addition, RSA gathered information related to the coordination of state and local resources through required agreements developed pursuant to the Individuals with Disabilities Education Improvement Act of 2004 (IDEA) and the Rehabilitation Act, and communities of practice. RSA also gathered information regarding emerging practices initiated by the VR agency in the area of services to youth with disabilities, as well as technical assistance and continuing education needs of VR agency staff.

To implement this focus area, RSA reviewed:

- VRSBD's progress toward the implementation of mutually agreed upon goals and strategies related to the provision of transition services identified in the prior monitoring report from FY 2007 (see Section 4 above);
- transition service policies and procedures;
- VR agency resources and collaborative efforts with other federal, state and local entities; and
- interagency transfers from VRSBD to Hawaii's DOE for the Special Education-Vocational Rehabilitation (SE-VR) Work Study Program.

In support of its monitoring activities, RSA reviewed the following documents:

- the agreement between the VR agency and the state education agency (SEA);

- SE-VR Work Study Memoranda of Agreement between DHS and VRSBD with the Hawaii DOE from 1974 and 1981;
- SE-VR Work Study Guidelines developed in August 2003;
- interagency transfers from VR to DOE, as well as invoices from DOE; and
- VR policies and procedures for the provision of transition services.

To assess the performance related to the provision of transition services and the outcomes achieved by youth with disabilities, RSA reviewed VRSBD relevant data from FY 2006 through FY 2010, describing:

- the number and percentage of transition-age youth who exited the VR program at various stages of the process;
- the amount of time these individuals were engaged in the various stages of the VR process, including eligibility determination, development of the IPE and the provision of services;
- the number and percentage of transition-age youth receiving services, including assessment, university and vocational training, rehabilitation technology and job placement; and
- the quantity, quality and types of employment outcomes achieved by transition-age youth.

RSA also compared the performance of VRSBD with peer agencies during the same period, as well as with national averages for other combined VR agencies.

As part of its review activities, RSA met with the following DSA and DSU staff and stakeholders to discuss the provision of services to youth with disabilities:

- VRSBD administrator;
- VRSBD branch administrators and supervisors;
- VRSBD staff service specialists;
- VRSBD VR counselors and transition staff;
- VRSBD transition coordinators serving as liaisons with the SEA and other agencies; and
- state and local school personnel, including DOE central office staff and a special education-vocational rehabilitation work study teacher.

RSA's review of transition services and employment outcomes achieved by youth with disabilities did not result in the identification of observations and recommendations. The compliance findings identified by RSA through the implementation of this focus area are contained in Section 6 of this report.

## **Technical Assistance**

The RSA review team provided technical assistance to VRSBD in the area of transition services and employment outcomes for youth with disabilities while on-site in Hawaii. Specifically, RSA provided guidance on a wide variety of topics, including the federal requirements related to non-delegable functions that can only be performed by VRSBD VR counselors; the use of trial work experiences and extended evaluations; the definition of an individual with a most significant

disability; the provision of individualized VR services through plans that contain all mandatory components of an IPE, as well as comparable services and benefits; and the coding and reporting of all services, whether purchased, provided by VRSBD or provided through comparable benefits, on the RSA-911. In addition, RSA provided technical assistance and guidance related to revisions to the formal interagency agreement with the SEA, including the integration of VRSBD policies and procedures specific to transition programming.

RSA also provided an analysis of and guidance related to the quantity and quality of employment outcomes for transition-age youth served by VRSBD covering the increasing employment rate for this population and the services provided. Finally, RSA provided guidance related to the provision of maintenance, transportation and the payment of wages to individuals involved in community-based work experiences.

## **C. Fiscal Integrity of the Vocational Rehabilitation Program**

The purpose of this focus area was to assess fiscal performance related to the VR program and to determine compliance with pertinent federal statutory and regulatory requirements, including OMB circulars. For purposes of the VR program, fiscal integrity is broadly defined as the proper and effective management of VR program funds to ensure that they are spent solely on allowable expenditures and activities. Through the implementation of this focus area, RSA reviewed: VR Agency Resource Management; the management of Match and Maintenance of Effort (MOE); Internal and External Monitoring and Oversight; and Allowable and Allocable Costs.

RSA used a variety of resources and documents in the course of this monitoring, including data maintained on RSA's MIS generated from reports submitted by the VR agency, e.g., Financial Status Report (SF-269/SF-425) and the Annual VR Program/Cost Report (RSA-2). The review covered fiscal data from FY 2006 thru FY 2010, along with other fiscal reports as necessary, to identify areas for improvement and potential areas of noncompliance.

Specifically, RSA engaged in the review of the following to ensure compliance with federal requirements:

- the FY 2007 monitoring report issued pursuant to Section 107 of the Rehabilitation Act (see Section 4 above for a report of the agency's progress toward implementation of recommendations and resolution of findings);
- A-133 audit findings and corrective actions;
- state/agency allotment/budget documents and annual fiscal reports; and
- grant award, match, MOE, and program income documentation.

In addition RSA reviewed the following as part of the monitoring process to ensure compliance:

- service provider contracts;
- VR agency policies, procedures, and forms (e.g., monitoring, personnel certifications and personnel activity reports), as needed;
- internal agency fiscal reports and other fiscal supporting documentation, as needed; and
- VR agency cost-benefit analysis reports.

RSA's review of the fiscal integrity of the VR Program administered by VRSBD did not result in the identification of observations and recommendations. Findings and corrective actions resulting from the implementation of this focus area are contained in Section 6 of this report.

## **Technical Assistance**

RSA provided technical assistance to VRSBD staff regarding contract development, documentation requirements, and monitoring contract performance. Contracting staff specifically requested information on how to measure performance. RSA provided information related to the structuring of a request for proposal (RFP) and ensuring that each contract includes language and clauses required to protect the VR agency, and to provide for specific outcomes. RSA also discussed specific monitoring requirements and pertinent statutes, providing resources through which VRSBD staff can obtain online training in contracting and acquisition.

## **SECTION 6: COMPLIANCE FINDINGS AND CORRECTIVE ACTIONS**

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RSA identified the following compliance findings and corrective actions that VRSBD is required to undertake. The technical assistance requested by the agency to enable it to carry out the corrective actions is contained in Appendix A to this report titled “Agency Response.” The full text of the legal requirements pertaining to each finding is contained in Appendix B.

VRSBD must develop a corrective action plan for RSA’s review and approval that includes specific steps the agency will take to complete the corrective action, the timetable for completing those steps, and the methods the agency will use to evaluate whether the compliance finding has been resolved. RSA anticipates that the corrective action plan can be developed within 45 days from the issuance of this report and RSA is available to provide technical assistance to assist VRSBD to develop the plan and undertake the corrective actions.

RSA reserves the right to pursue enforcement action related to these findings as it deems appropriate, including the recovery of funds, pursuant to 34 CFR 80.43 and 34 CFR part 81 of the Education Department General Administrative Regulations (EDGAR).

### **1. State Educational Agency (SEA) Agreement between VRSBD and DOE**

#### **Legal Requirements:**

- Rehabilitation Act—Section 101(a)(11)(D)(i)–(iv)
- VR Program Regulations—34 CFR 361.22(b)(1)–(4)

#### **Finding:**

Hawaii’s Department of Human Services (DHS), VRSBD’s DSA, entered into an agreement with the Department of Education (DOE) in FY 2004 (extended in FY 2009) that is not in compliance with the minimum requirements of a formal interagency agreement with the SEA pursuant to Section 101(a)(11)(D) of the Rehabilitation Act and 34 CFR 361.22(b). At a minimum, the SEA agreement must include:

- (1) consultation and technical assistance to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including vocational rehabilitation services;
- (2) transition planning by personnel of the designated State agency and educational agency personnel for students with disabilities that facilitates the development and completion of their individualized education programs (IEPs) under section 614(d) of the Individuals with Disabilities Education Act;
- (3) the roles and responsibilities, including financial responsibilities, of each agency, including provisions for determining State lead agencies and qualified personnel responsible for transition services; and
- (4) procedures for outreach to and identification of students with disabilities who are in need of transition services. Outreach to these students should occur as early as possible during

the transition planning process and must include, at a minimum, a description of the purpose of the vocational rehabilitation program, eligibility requirements, application procedures, and scope of services that may be provided to eligible individuals.

DHS entered into a formal interagency agreement with Hawaii's DOE on December 8, 2003, extended in FY 2009, which states that DHS is, "required to operate and administer the State Vocational Rehabilitation Services Program." For the purpose of this finding and analysis of the formal interagency agreement, RSA will reference VRSBD and the Department of Education as the entities named in the SEA agreement.

First, the current agreement does not delineate the responsibilities of VRSBD to provide consultation and technical assistance to assist educational agencies in planning for the transition of youth from school to post-school activities, including VR as required by Section 101(a)(11)(D)(i) and its implementing regulation at 34 CFR 361.22(b)(1).

In addition, the SEA agreement between VRSBD and the DOE does not provide for the responsibilities of each party or entity with respect to the provision of transition planning in order to facilitate the development of the Individualized Education Program (IEP) in accordance with Section 101(a)(11)(D)(ii) and 34 CFR 361.22(b)(2).

Furthermore, the SEA agreement does not include the financial responsibilities of each agency related to the provision of services, including provisions for determining state lead agencies and qualified personnel responsible for transition services, as required by Section 101(a)(11)(D)(iii) and 34 CFR 361.22(b)(3). Rather, the current agreement states, "the financial responsibility of the Department of Human Services in accordance with the requirements and constraints of Federal and State law will precede the financial responsibility of the Department of Education, the agency responsible for developing an IEP for a child with a disability (34 CFR 300.142(a)(1))." VRSBD communicated that its funding does not precede that of DOE, while youth with disabilities are enrolled in high school. Thus, the current financial responsibilities as stated need to be clarified and revised in accordance with 34 CFR 361.22(b)(3) and consistent with the current implementation of programming.

Finally, the SEA agreement does not include procedures for outreach to, and identification of, students with disabilities in need of transition services pursuant to Section 101(a)(11)(D)(iv) and 34 CFR 361.22(b)(4). It also does not include a description of the purpose of the VR program, application procedures, eligibility requirements, or the scope of services that can be provided to eligible individuals.

During the on-site portion of the monitoring review, VRSBD indicated that it will initiate communication with the Hawaii Department of Education to revise the current SEA agreement. The SEA agreement between VRSBD and the Department of Education will include the interagency procedures developed by VRSBD. VRSBD is committed to strengthening and ensuring the coordinated facilitation and transition of students with disabilities from the receipt of educational services in schools to vocational rehabilitation and adult services in the community.



**Corrective Action 1: VRSBD must:**

- 1.1 submit a written assurance to RSA within ten days of the issuance of the final monitoring report that VRSBD will ensure that the SEA agreement with the Department of Education is updated and revised to reflect the appropriate entities involved in the formal interagency agreement and to comply with the requirements at Section 101(a)(11)(D) of the Rehabilitation Act and its implementing regulations at 34 CFR 361.22 (b); and
- 1.2 submit the revised SEA formal interagency agreement between VRSBD and the Department of Education for RSA's review as part of VRSBD's corrective actions associated with the FY 2012 Section 107 monitoring review.

**2. VRSBD agreements with the Local Workforce Investment Boards**

**Legal Requirements:**

- Rehabilitation Act – Section 101(a)(11)(B)
- VR Program Regulations – 34 CFR 361.23(a)(3)
- Workforce Investment Act – Sections 121(c)
- WIA Regulations – 20 CFR 662.230(c), 20 CFR 662.270 and 662.300

**Finding:**

VRSBD is not in compliance with Section 101(a)(11)(B) of the Rehabilitation Act, 34 CFR 361.23(a)(3), Section 121(c) of the Workforce Investment Act of 1998 (WIA), and 20 CFR 662.230(c), 20 CFR 662.270 and 662.300 of the WIA regulations, because it does not have a current memorandum of understanding (MOU) with three of the four LWIBs throughout the State of Hawaii.

Hawaii has a total of eleven one-stop centers across the state of Hawaii, established under four LWIBs. Of those eleven one-stop centers, two are located on Hawaii (Hilo and Kona); two are located on Maui (Kahului and Molokai); one is located on Kauai and six are located on Oahu. During the course of the review, RSA did not receive documentation that MOUs exist with the Kauai and Maui one-stop delivery systems. In addition, the MOU with the Oahu LWIB expired on June 30, 2011. VRSBD utilizes only one co-located office, which is at the Dillingham office located on Oahu. Finally, the agreement with the Oahu one-stop center, which includes VRSBD contribution for co-location at the Dillingham office, did not provide sufficient details on how this amount was determined nor the cost allocation methodology used to determine VRSBD's annual contribution.

As a required workforce partner, VRSBD must enter into an agreement with the LWIBs concerning the operations of the one-stop delivery system in each local area throughout the State of Hawaii. Each MOU, at a minimum, must describe the manner in which the cost of services and operating costs will be funded, how referrals will be processed, the duration of the MOU, and when necessary, the procedures by which the MOU can be amended (34 CFR 361.23(a)(3) and 20 CFR 662.300). All costs attributed to each partner must be proportionate to the benefit received and consistent with the fair share of operating costs and services provided at the one-stop center. Since there are a number of methods that can be used to determine these costs,

including allocation of direct charges, cost pooling, indirect cost rates and cost allocation plans, it is essential for the MOU to include the cost methodology used and detailed cost rates for each participating partner (20 CFR 662.270).

VRSD is not in compliance with Section 101(a)(11)(B) of the Rehabilitation Act, 34 CFR 361.23(a)(3); Section 121(c) of WIA, and 20 CFR 662.230(c), 20 CFR 662.270 and 662.300 since it does not have an established or current MOU with three of the four LWIBs throughout the state of Hawaii. Of those three MOUs with LWIBs, the Oahu LWIB agreement has expired and does not include sufficient cost methodology and detailed cost rates. Furthermore, the expired MOU with the Oahu LWIB cannot be reinstated without incorporating the required information related to cost allocation and methodology.

**Corrective Action 2:** VRSD must:

- 2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with Section 101(a)(11)(B) of the Rehabilitation Act; 34 CFR 361.23(a)(3); Sections 121(c) of WIA and WIA Regulations at 20 CFR 662.230(c), 20 CFR 662.270 and 662.300, by entering into MOUs with each of the LWIBs in the State of Hawaii; and
- 2.2 submit a plan, including timelines, describing the corrective actions that will be taken, to ensure VRSD has developed MOUs with each of the LWIBs throughout Hawaii.

**3. Personnel Costs**

Federal regulations require VRSD to assure in its State Plan that it will implement policies and procedures for the efficient and effective administration of the VR program to ensure that all functions are carried out properly and financial accounting is accurate (34 CFR 361.12). VRSD also is required to implement fiscal controls to ensure that VR funds are expended and accounted for accurately and that expenditures are traceable to a level sufficient to determine that such expenditures were made in accordance with applicable federal requirements (34 CFR 80.20(a)). As explained below, VRSD is not in compliance with these regulations and those specific to the allocation of personnel costs because it:

- does not maintain periodic certifications for employees working solely on one grant;
- does not maintain personnel activity reports for employees working on more than one grant program; and
- may improperly charge salary expenses for staff working on the VR and other programs solely to the VR award.

**A. Periodic Personnel Certifications**

**Legal Requirements:**

- OMB Circulars - 2 CFR 225, Appendix B, paragraph 8.h.3

**Finding:**

VRSD has not complied with the OMB circulars codified at 2 CFR 225, Appendix B, paragraph 8.h.3, which states:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

During the monitoring, RSA requested that VRSD provide for review semi-annual certifications for staff working solely on the VR award. In response, VRSD did not provide copies of completed semi-annual certifications. Instead, it submitted to RSA its Internal Communication Form, which instructed staff on how to complete the required semi-annual certifications and a blank copy of the Personnel Compensation Certification Form to be used by staff working on one cost objective. However, RSA found through the course of the monitoring that VRSD management and staff do not fill out the required Personnel Compensation Certification Form, despite the existence of written instructions for its completion and the development of the form. Therefore, the agency is not in compliance with the requirements of 2 CFR 225, Appendix B, paragraph 8.h.3.

**Corrective Action 3.A:** VRSD must:

- 3.A.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will ensure employees who work solely on a single cost objective prepare certifications at least semi-annually, in accordance with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.3; and
- 3.A.2 develop and implement procedures to ensure that VRSD employees who work solely on a single cost objective or single federal award prepare semi-annual certifications that are signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

**B. Personnel Activity Reports**

**Legal Requirements:**

- OMB Circulars - 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5

**Finding:**

VRSD is not in compliance with regulations at 2 CFR 225 Appendix B, paragraphs 8.h.4 and 8.h.5 that require employees working on multiple cost objectives to maintain personnel activity reports or equivalent documentation that reflect an after-the-fact distribution of the actual activity of each employee, in order to determine the amount of expenses to be allocated to the VR award. PARs must be signed by the employee, prepared at least monthly, coincide with one or more pay periods, and must account for the total activity for which each employee is compensated.

RSA requested that VRSD provide for review Personnel Activity Reports (PARs), or equivalent documentation, for staff working on more than one cost award. VRSD provided

RSA with PARs prior to the on-site visit. However, documentation submitted was incomplete and did not account for the total activity for which the employee in the sample was compensated. For the 6-month period covered by the sample PARs, the following time periods were left blank:

- July 19 through July 25, 2011;
- September 24 through September 28, 2011;
- October 1 through October 9, 2011; and
- December 17 through December 27, 2011.

During the on-site monitoring, VRSBD could not provide RSA with additional sample PARs or any other documentation that demonstrates compliance with 2 CFR 225 Appendix B, paragraphs 8.h.4 and 8.h.5.

**Corrective Action 3.B:** VRSBD must:

- 3.B.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will ensure that personnel activity reports, or equivalent documentation, are prepared and maintained to support the allocation of an equitable portion of personnel costs for individuals who work on more than one federal grant program or cost objective in accordance with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 3.B.2 update and implement procedures for individuals who work on more than one federal award or cost objective to ensure that personnel activity reports or equivalent documentation reflects an after-the-fact distribution of the actual activity of each employee; accounts for the total activity for which each employee is compensated; are prepared at least monthly and coincide with one or more pay periods; and, are signed by the employee.

**C. Unallowable VR Expenditures and Unallowable Sources of Match**

**Legal Requirements:**

- Rehabilitation Act—Section 111(a)(1)
- VR Program Regulations—34 CFR 361.3 and 34 CFR 361.60(b)(1)
- EDGAR—34 CFR 80.24(a)(1)
- OMB Circulars—2 CFR 225, Appendix A, paragraphs C.1.b, C.3.a, and C.3.c

**Finding:**

VRSBD is not in compliance with Section 111(a) (1) of the Rehabilitation Act, along with regulations at 34 CFR 361.3 and 2 CFR 225 Appendix A, paragraphs C to the degree that it may have expended VR program funds on personnel costs associated with staff working on other programs.

VRSBD must ensure that VR funds are spent solely on the provision of VR services and the administration of the VR program (Section 111(a)(1) of the Rehabilitation Act; 34 CFR 361.3). The OMB Circulars require that federal funds be spent solely on allowable and allocable costs.

To be allowable, costs must be necessary and reasonable for carrying out the federal program (2 CFR 225, Appendix A, C.1.a). To be considered reasonable, the cost must be one that would be incurred by a prudent person (2 CFR 225, Appendix A, C.2). To be allocable to the VR program, the cost must be proportional to the benefit received by the federal program (2 CFR 225, Appendix A, C.3.a).

VRSBD administers multiple programs, including Vocational Rehabilitation, State Independent Living Services, Independent Living Services for Older Individuals Who Are Blind, and Low Vision Services. As described in Finding 3.b above, personnel activity reports were incorrectly prepared. Consequently, the allocation of personnel costs for staff working across the programs that VRSBD administers is not properly documented.

VRSBD is not allowed to charge salary expenses for staff working on programs other than VR to the VR award. The expenditure of VR program funds to support other programs administered by VRSBD is not allowable as the costs are not traceable to the provision of VR services or to applicants or individuals determined eligible for VR services. To the extent that these funds were used to support State Independent Living Services, Independent Living Services for Older Individuals Who Are Blind, Low Vision Services, and other programs, the expenditures would not have been allowable under the VR program and would not have been spent in compliance with federal regulations.

#### **Unallowable Source of Match**

Non-federal expenditures used for satisfying VR match requirements must be for allowable expenditures under the VR program, which include expenditures for the cost of providing VR services and the cost for administering the VR program (34 CFR 361.3 and 361.60(b)(1); 34 CFR 80.24(a)). To the extent that personnel costs incurred by staff working on other programs administered by VRSBD were not allowable under, or allocable to, the VR program, these expenditures would also not be allowable as a source of non-federal match.

#### **Corrective Action 3.C: VRSBD must:**

- 3.C.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that VRSBD will ensure, beginning immediately, that all VR funds are expended only for allocable costs and that supporting documentation will be maintained for personnel expenditures; and
- 3.C.2 cease using VR funds to pay unallowable costs or costs that lack the supporting documentation necessary to ensure that such costs are allowable, specifically those personnel costs related to non-VR programs administered by VRSBD, and cease using related non-federal expenditures to meet the agency's non-federal share, in accordance with Section 111(a)(1) of the Rehabilitation Act; 34 CFR 361.3, 34 CFR 361.12 and 34 CFR 361.60(b)(1); 34 CFR 80.20(a) and 34 CFR 80.24(a)(1); and OMB Circulars codified at 2 CFR 225, Appendix A, paragraphs C.1.b, C.3.a and C.3.c.

#### **4. Financial Management System**

Federal regulations require VRSBD to assure in its State Plan that it will implement policies and procedures for the efficient and effective administration of the VR program to ensure that all

functions are carried out properly and financial accounting is accurate (34 CFR 361.12). VRSBD also is required to implement fiscal controls to ensure that VR funds are expended and accounted for accurately and that expenditures are traceable to a level sufficient to determine that such expenditures were made in accordance with applicable federal requirements (34 CFR 80.20(a)). As explained below, VRSBD's financial management of the VR program is not in compliance with these regulations and other pertinent federal requirements because it does not:

- submit accurate financial reports to RSA;
- reconcile contract expenditures against established budgets;
- monitor contracts to determine if performance goals are met or to verify that the expenditures are in compliance with all federal requirements; and
- have an approved cost allocation plan through which it is permitted to charge indirect costs.

## **A. Financial Reporting**

### **Legal Requirements:**

- VR Program Regulations – 34 CFR 361.12
- EDGAR –34 CFR 80.20(a)

### **Finding:**

VRSBD is not in compliance with 34 CFR 361.12 and 34 CFR 80.20(a)(1) which require that VR agencies be responsible for financial accountability, and that procedures be in place to ensure expenditures are traceable to a level that permits determination of their compliance with federal requirements.

Interviews with staff at VRSBD indicated that the agency's accounting system is at least 30 years old. The accounting system does not allow the agency to retrieve accurate data and accounting information related to the number and dollar amount of contracts outstanding, the amount of unliquidated obligations, and the amount of total program expenditures. These factors adversely affect the agency's ability to prepare accurate federal financial reports. In addition, data related to the amount of indirect costs is of questionable accuracy and cannot be validated within the accounting system.

RSA reviewed the agencies federal financial reports for federal FY 2007 through federal FY 2011, and compared that with data extracted through the RSA management information system and the Department's G5 grant reporting system. Examples of inaccuracies are listed below.

- Total federal Outlays, which averaged about \$14 million from federal FY 2007 through federal FY 2010, were originally reported in the final SF-269 for FY 2009 as \$29,251,040. VRSBD corrected this error following this on-site review, revising the final SF-269 for that year to report \$16,368,797 in total federal outlays. However, the agency was not aware of the error until RSA identified it during the monitoring this year.
- Indirect costs are charged against grant award expenditures. Between the fourth quarter of an award period and the final quarter (usually the eighth quarter of an award period) expenditures typically increase. Indirect costs are those: (a) incurred for a common or

joint purpose benefiting more than one cost objective; and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. If expenditures increase, indirect costs should not decrease.

Indirect costs in the fourth quarter of FY 2007 were reported in the SF-269 at \$849,863, and program outlays (expenditures) were \$10,119,773. Indirect costs reported in the final quarter of FY 2007 decreased and were \$839,563, while total outlays increased to \$14,300,658. Indirect costs were reported as zero in FY 2010 and FY 2011.

As stated above, the agency's accounting system is more than 30 years old, and certain data either are not generated or cannot be easily extracted from the system. The result has been inaccuracies in federal financial reports submitted to RSA. VRSBD's inaccurate reporting affects RSA's ability to develop accurate databases from which to conduct program analyses, particularly those analyses of the amount of non-federal share provided by the recipient and maintenance of effort requirements. By submitting inaccurate reports, VRSBD is not in compliance with the requirements of 34 CFR 361.12 and 34 CFR 80.20(a).

**Corrective Action 4.A:** VRSBD must:

- 4.A.1 cease submitting inaccurate SF-425 reports;
- 4.A.2 submit a written assurance to RSA within 10 days after the final monitoring report is issued that VRSBD will submit complete and accurate SF-425 reports to RSA in accordance with regulations at 34 CFR 361.12 and 34 CFR 80.20(a); and
- 4.A.3 develop procedures to ensure the accurate and timely submission of federal financial reports to RSA.

**B. Reconciliation of Contract Expenditures and Monitoring**

**Legal Requirements:**

- VR Program Regulations – 34 CFR 361.12
- EDGAR – 34 CFR 80.20(a) and 34 CFR 80.40(a)

**Finding:**

VRSBD is not in compliance with federal regulations at 34 CFR 361.12, and 34 CFR 80.20(a), which require VR agencies to be responsible for financial accountability and to implement procedures to ensure expenditures are traceable and in compliance with federal statutes, because it does not reconcile contract expenditures against proposed budgets. In addition, VRSBD does not monitor contract performance and compliance as required by regulations at 34 CFR 80.40(a). These findings are based on the examples below.

**Example 1:** RSA reviewed the contract for deaf adjustment services executed with the vendor, Signs of Self, Inc., in the amount of \$200,000. The contract period is for two years, from July 2011 through June 2013. The purpose of the contract is to provide adjustment services to individuals who are deaf, hard of hearing, or deaf-blind to assist them in obtaining and maintaining employment through independence in the community. The vendor is to be paid

based on a budget. However, the budget was not included in the contract documentation provided to RSA.

The method of payment, in Paragraph 5 of the contract, states, “Partial payments shall be made to the PROVIDER on a monthly basis upon presentation of invoices received from the PROVIDER, specifying, to the satisfaction of the STATE, that work under this Agreement has been performed...” The contract further requires that invoices include, “...a detailed breakdown of the PROVIDER’S charges...supported by statements indicating [the individuals] who were provided services and the types of services rendered.”

RSA reviewed invoices from August 2011 through March 2012. The vendor was paid the amount of \$8,333.33, or 1/24<sup>th</sup>, of the contract amount monthly. Invoices were identical, with only the date being changed. Under Description of Services, the invoices state, “Contracted services and costs including: Personnel Costs, Lease/Rental, Mileage, Postage & Delivery, Publication & Printing, Repair and Maintenance, Staff Training, Supplies, Telecommunications, Interpreter services, Community Support.”

During the on-site visit, RSA staff met with VRSBD staff and reviewed documentation related to this contract. The contract files contained no documentation of the detailed break-down of the services provided or to whom services were delivered, as required by the contract language cited above. VRSBD staff indicated that they did not use the invoices provided by the contractor or any other documentation to reconcile the payments made under the contract against the proposed budget.

In addition, there was no documentation in the files indicating that VRSBD reviewed the contractor’s performance under the contract or that the agency had verified, through supporting documentation it obtained or maintained by the contractor, the services provided were allowable in accordance with federal requirements. When asked, VRSBD staff stated that they do not monitor this contract.

**Example 2:** On July 8, 1974, the Department of Human Services (formerly the Department of Social Services and Housing) and VRSBD entered into a MOA with the Hawaii Department of Education (DOE) to jointly administer and fund a transition program-the Special Education-Vocational Rehabilitation (SE-VR) Work Study Program—for students with disabilities who were transitioning from school to work. The MOA was updated December 15, 1981, and internal SE-VR Work Study Program Guidelines were published in August 2003.

Under the MOA, VRSBD allocated federal VR program funds, totaling approximately \$3.5 million from FYs 2006 through 2011, to DOE. The majority of this funding was used to cover a “training allowance,” described as the wages earned by youth with disabilities based on the complexity of the tasks completed while engaged in community-based work experiences. VRSBD also allocated federal funds for other costs associated with the operation of the program, such as vocationally-related field trips, small tools, supplies and equipment.

SE-VR Work-Study Program Guidelines (2003) require DHS to prepare a schedule of allocation and that it transfer funds to DOE for each school participating SE-VR work study programming. In addition, the guidelines state, “the allocated amount will be based on program cost standards



determined by the Division of Vocational Rehabilitation. The program cost standard shall be based on an estimated: (1) standard training allowance for each participating student-client, and (2) standards for other costs which cannot be covered by the Department of Education” (Section XI. Vocational Rehabilitation Funds Transferred to Department of Education, A. Procedures, page 15).

VRSBD fiscal staff were unable to provide RSA with the total number or the total dollar amount of these contracts outstanding. During the review, these staff indicated that the only way in which they can obtain this information is to contact the VR counselors responsible for coordinating the services provided through the program to their consumers. Consequently, VRSBD fiscal staff do not conduct reconciliations of the amounts set forth in the invoices associated with the program against the proposed budgets for each school. Again, these staff stated during the review that they did not conduct monitoring of the work study program to assess its performance or to determine, based on supporting documentation in its possession or maintained by the schools, the services provided were allowable pursuant to the Rehabilitation Act and other pertinent federal requirements.

In both examples, VRSBD has not demonstrated the financial accountability required by 34 CFR 361.12 and 34 CFR 80.20(a) because it does not perform reconciliation of contract expenditures against proposed contract budgets to determine that the expenditures are equivalent to those identified in the budgets; nor is it in compliance with the requirements of 34 CFR 80.40(a) because it does not monitor the performance of the contractors or verify through supporting documentation that the services provided are allowable in accordance with federal requirements.

**Corrective Action 4.B:** VRSBD must:

- 4.B.1 submit a written assurance to RSA within 10 days after the final monitoring report is issued that VRSBD will comply with the requirements at 34 CFR 361.12, 34 CFR 80.20(a) and 34 CFR 80.40(a) to ensure that methods of financial accountability are implemented, such as the reconciliation of expenditures against proposed budgets, in connection with all contracts, including those with Signs of Self, Inc. and the Department of Education; that the contract costs charged to the VR program are traceable to a level that ensures they are allowable expenditures under the VR program; and that VRSBD implements procedures for the monitoring of contracts to ensure compliance with federal requirements; and
- 4.B.2 develop written procedures detailing the processes by which it will conduct the reconciliation of VR program expenditures against contract budgets and the monitoring of contracts to assess if performance goals are met and that expenditures are in compliance with federal requirements.

**C. Approved Cost Allocation Plan**

**Legal Requirements:**

- VR Program Regulations - 34 CFR 361.12
- EDGAR—34 CFR 76.560(b), 34 CFR 80.20(a), and 34 CFR 80.22(a)

- OMB Circulars - 2 CFR 225, Appendix A, paragraph C.1 and 2 CFR 225, Appendix C, paragraph D.3

**Finding:**

Because VRSBD does not have a cost allocation plan<sup>1</sup> through which it can charge indirect costs, and has charged indirect costs to the VR award, it is not in compliance with federal regulations at 34 CFR 361.12, 34 CFR 76.560(b), 34 CFR 80.20(a), 34 CFR 80.22(a)(1) and 2 CFR 225 Appendix C, paragraph D.3.

Specifically, the regulations at 34 CFR 361.12 and 34 CFR 80.20(a) require that VR agencies be responsible for financial accountability, and that procedures be in place to ensure expenditures are traceable to a level sufficient to determine they are in compliance with federal requirements. In addition, regulations at 34 CFR 76.560(b) require grantees to have a current indirect cost rate agreement, acquired by submitting a proposal to its cognizant agency, in order to charge indirect costs to a grant. Regulations at 34 CFR 80.22(a)(1) state that grant funds may only be used for allowable costs of the grantees. Cost principles at 2 CFR 225 Appendix C, paragraph D.3 also require that agencies develop a [cost allocation] plan in accordance with the requirements described in Appendix C.

VRSBD administers several programs: Vocational Rehabilitation, State Independent Living Services, and Independent Living Services for Older Individuals Who Are Blind. The Hawaii Department of Human Services has developed a cost allocation plan approved by the U. S. Department of Health and Human Services, its cognizant agency. Services used by VRSBD, such as building maintenance and central services, accounting, and information technology (IT) services, are allocated to VRSBD according to this approved cost allocation plan.

However, VRSBD does not allocate these costs across the programs it administers, and applies allocated costs entirely to its Title I, VR award. These costs were reported in VRSBD's SF-269s on the indirect cost line.

As a recipient of federal funds, VRSBD must administer the VR program in such a manner that ensures the proper expenditure and accounting of federal funds and the proper collection and reporting of all federal funds (34 CFR 361.12 and 34 CFR 80.20(a)). VRSBD must ensure that federal funds are spent solely for allowable costs (34 CFR 80.22(a)) and in a manner consistent with the federal cost principles. Although indirect costs are generally allowable under the VR program, VRSBD must have an approved indirect cost rate agreement in place covering the VR and other programs it administers before it can charge indirect costs (34 CFR 76.560(b) and 2 CFR 225, Appendix A, paragraph C.3.d). Without such an agreement in place, VRSBD is not permitted to charge indirect costs to the VR program. Because VRSBD did not have an approved cost allocation plan or indirect cost rate, the indirect costs VRSBD reported charging against the VR program in FY 2007 through FY 2009 are not allowable or allocable to the VR program.

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<sup>1</sup> 2 CFR 225 Appendix A, Section B.10 defines "Cost Allocation Plan" as a central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal.

Below, Table 4.C.1 indicates the amounts of indirect costs charged to the federal award by federal fiscal year.

**Table 4.C.1**  
**Indirect Costs Charged to VRSBD's Federal Award during FY 2007 – FY 2011**

<b>VRSBD Indirect Costs for FYs 2007 through 2009</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Indirect Costs As Reported</b>	\$839,563	\$902,293	\$774,145	Zero reported	Zero reported

**Corrective Action 4.C:** VRSBD must:

- 4.C.1 cease charging indirect costs to any federal grant, including the VR grant, without a cost allocation plan or indirect cost rate that has been approved by VRSBD's cognizant agency, the U. S. Department of Health and Human Services;
- 4.C.2 submit a written assurance to RSA within 10 days after the final report is issued that VRSBD will submit timely cost allocation plans for review and approval, and that only the approved cost allocation plan shall be used in charging indirect costs to federal grants, as required by the federal cost principles at 2 CFR 225. In addition, VRSBD must assure that it will administer the program in a manner that ensures the proper expenditure and accounting of funds, as required by 34 CFR 361.12, 34 CFR 76.560(b), 34 CFR 80.20(a), 34 CFR 80.22(a), and the federal cost principles at 2 CFR 225; and
- 4.C.3 submit a proposal for a new indirect cost rate or cost allocation plan to the US Department of Health and Human Services for review and approval in accordance with the federal cost principles and requirements set forth at 2 CFR 225. Any new approved cost allocation plan would be applicable for the current fiscal year or future years, as appropriate. Any newly approved cost allocation plan would not be applied retroactively to prior years.

## **APPENDIX A: AGENCY RESPONSE**

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### **Section 4: Results of Prior Monitoring Activities**

VRSBD requests additional technical assistance described below to enable it to implement the following goals identified in the FY 2007 monitoring report.

#### **Goals**

**Goal 1:** To improve the quality of VRSBD's employment outcomes

**Additional Technical Assistance Requested:** VRSBD does not request technical assistance.

**Goal 2:** VRSBD will implement a set of internal and external monitoring procedures to better track both the quality of service provision and compliance with the Rehabilitation Act and its implementing regulations. Such a system of self-monitoring should be rigorously designed, on-going, systemic in its approach, and useful for identifying VRSBD staff training needs as well as areas where the agency can improve the quality of its service provision to consumers.

**Additional Technical Assistance Requested:** VRSBD does not request technical assistance.

**Goal 3:** Identify promising practices for the delivery of VR services to individuals who are deaf or hard-of-hearing in order to increase the number and quality of employment outcomes for these individuals.

**Additional Technical Assistance Requested:** VRSBD does not request technical assistance.

**Goal 4:** By the end of FY 2009, VRSBD will reduce the VR program funds carried over to less than 20 percent of the federal funds made available to the state each FY.

**Additional Technical Assistance Requested:** VRSBD does not request technical assistance.

**Goal 5:** Improve the accuracy of the RSA-2 Report.

**Additional Technical Assistance Requested:** VRSBD does not request technical assistance.

### **Section 5: Focus Areas**

#### **5.B.1. Representation on the Workforce Investment Boards**

**Recommendation 5.B.1:** RSA recommends that VRSBD:

5.B.1.1 ensure that all VRSBD representatives actively participate with the LWIBs in Hawaii, most notably the Oahu system; and

5.B.1.2 ensure that VRSBD effectively represents the VR program on the SWIB by attending all meetings.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

## **Section 6: Compliance Findings and Corrective Actions**

### **1. State Educational Agency (SEA) Agreement between VRSBD and DOE**

**Corrective Action 1:** VRSBD must:

- 1.1 submit a written assurance to RSA within ten days of the issuance of the final monitoring report that VRSBD will ensure that the SEA agreement with the Department of Education is updated and revised to reflect the appropriate entities involved in the formal interagency agreement and to comply with the requirements at Section 101(a)(11)(D) of the Rehabilitation Act and its implementing regulations at 34 CFR 361.22 (b); and
- 1.2 submit the revised SEA formal interagency agreement between VRSBD and the Department of Education for RSA's review as part of VRSBD's corrective actions associated with the FY 2012 Section 107 monitoring review.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

### **2. VRSBD agreements with the Local Workforce Investment Boards**

**Corrective Action 2:** VRSBD must:

- 2.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will comply with Section 101(a)(11)(B) of the Rehabilitation Act ; 34 CFR 361.23(a)(3); Sections 121(c) of WIA and WIA Regulations at 20 CFR 662.230(c), 20 CFR 662.270 and 662.300, by entering into MOUs with each of the LWIBs in the State of Hawaii; and
- 2.2 submit a plan, including timelines, describing the corrective actions that will be taken, to ensure VRSBD has developed MOUs with each of the LWIBs throughout Hawaii.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

### **3. Personnel Costs**

#### **A. Periodic Personnel Certifications**

**Corrective Action 3.A:** VRSBD must:

- 3.A.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will ensure employees who work solely on a single cost objective prepare certifications at least semi-annually, in accordance with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.3; and
- 3.A.2 develop and implement procedures to ensure that VRSBD employees who work solely on

a single cost objective or single federal award prepare semi-annual certifications that are signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

**Corrective Action 3.B:** VRSBD must:

- 3.B.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that it will ensure that personnel activity reports, or equivalent documentation, are prepared and maintained to support the allocation of an equitable portion of personnel costs for individuals who work on more than one federal grant program or cost objective in accordance with 34 CFR 361.12, 34 CFR 80.20(a), and 2 CFR 225, Appendix B, paragraphs 8.h.4 and 8.h.5; and
- 3.B.2 update and implement procedures for individuals who work on more than one federal award or cost objective to ensure that personnel activity reports or equivalent documentation (1) reflects an after-the-fact distribution of the actual activity of each employee; (2) accounts for the total activity for which each employee is compensated; (3) are prepared at least monthly and coincide with one or more pay periods; and, (4) are signed by the employee.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

### **C. Unallowable VR Expenditures and Unallowable Sources of Match**

**Corrective Action 3.C:** VRSBD must:

- 3.C.1 submit a written assurance to RSA within 10 days of receipt of the final monitoring report that VRSBD will ensure, beginning immediately, that all VR funds are expended only for allocable costs and that supporting documentation will be maintained for personnel expenditures; and
- 3.C.2 cease using VR funds to pay unallowable costs or costs that lack the supporting documentation necessary to ensure that such costs are allowable, specifically those personnel costs related to non-VR programs administered by VRSBD, and cease using related non-federal expenditures to meet the agency's non-federal share, in accordance with Section 111(a)(1) of the Rehabilitation Act; 34 CFR 361.3, 34 CFR 361.12 and 34 CFR 361.60(b)(1); 34 CFR 80.20(a) and 34 CFR 80.24(a)(1); and OMB Circulars codified at 2 CFR 225, Appendix A, paragraphs C.1.b, C.3.a and C.3.c.

**Agency Response:** VRSBD is in agreement with the finding and steps will be taken to ensure that procedures are developed to comply with federal requirements. Personnel activity reports or equivalent documentation only indicated that activities were VR or not VR. Of those activities that were not VR, none were specifically identified as IL, OIB or low vision. VRSBD acknowledges that it did not charge all agency staff correctly, specifically, administrative staff.

However, it will use this information to back out non-State VR Services Program salaries charged to VR and will provide RSA with substantiating documentation.

**Technical Assistance:** VRSBD does not request technical assistance.

#### **4. Financial Management System**

##### **4.A. Financial Reporting**

**Corrective Action 4.A:** VRSBD must:

- 4.A.1 cease submitting inaccurate SF-425 reports;
- 4.A.2 submit a written assurance to RSA within 10 days after the final monitoring report is issued that VRSBD will submit complete and accurate SF-425 reports to RSA in accordance with regulations at 34 CFR 361.12 and 34 CFR 80.20(a); and
- 4.A.3 develop procedures to ensure the accurate and timely submission of federal financial reports to RSA.

**Agency Response:** VRSBD is not in agreement with the finding related to financial reporting. VRSBD does not agree with the total reported outlays, as the original financial work papers prepared in March 2011 to support final expenditures for the FY 2009 State VR Services Program grant reflect \$16,368,797 in total program outlays. The final report was keyed into the RSA MIS and submitted to RSA by VRSBD based on the above mentioned work papers. VRSBD does not know how the outlays increased from \$16,368,797 to \$29,251,040, and was unaware of this error until RSA questioned total outlays in pre-review teleconferences. A corrected report was entered into the RSA MIS on March 28, 2012.

Furthermore, indirect costs are charged against grant award expenditures, using either a salary/fringe base or total direct costs base. Indirect costs reported by VRSBD were SWCAP and department costs allocated through the cost allocation plan. These costs would not increase after 9/30 of the fiscal year for which the funds were appropriated. However, costs would decrease if adjustments are made to reduce previously reported allocations to VR programs.

VRSBD requests that part 4A of this finding be removed.

**RSA Response:** RSA reviewed information submitted by VRSBD in response to this finding, including the work papers referenced above. As a result, RSA has revised the data in Table 2.2 to reflect the corrected amount of total federal outlays for FY 2009 of \$16,368,797. The text of Finding 4.A has been revised as well to describe the correction based on the agency's response. Nonetheless, the correction of the error in FY 2012 during the course of the review does not negate the prior inaccuracy in reporting in FY 2009. Furthermore, the fact that VRSBD was unaware of the error and the need for the correction until informed by RSA during the review serves to substantiate the finding that the agency's financial system does not enable the agency to ensure financial accountability. Finally, VRSBD did not provide any additional supporting documentation indicating whether the fluctuations in indirect costs were due to adjustments or corrections to financial reports. Consequently, the finding stands as written and VRSBD must comply with the corrective actions above.

**Technical Assistance:** VRSBD does not request technical assistance.

## **B. Reconciliation of Contract Expenditures and Monitoring**

**Corrective Action 4.B:** VRSBD must:

- 4.B.1 submit a written assurance to RSA within 10 days after the final monitoring report is issued that VRSBD will comply with the requirements at 34 CFR 361.12, 34 CFR 80.20(a) and 34 CFR 80.40(a) to ensure that methods of financial accountability are implemented, such as the reconciliation of expenditures against proposed budgets, in connection with all contracts, including those with Signs of Self, Inc. and the Department of Education; that the contract costs charged to the VR program are traceable to a level that ensures they are allowable expenditures under the VR program; and that VRSBD implements procedures for the monitoring of contracts to ensure compliance with federal requirements; and
- 4.B.2 develop written procedures detailing the processes by which it will conduct the reconciliation of VR program expenditures against contract budgets and the monitoring of contracts to assess if performance goals are met and that expenditures are in compliance with federal requirements.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.

## **C. Approved Cost Allocation Plan**

**Corrective Action 4.C:** VRSBD must:

- 4.C.1 cease charging indirect costs to any federal grant, including the VR grant, without a cost allocation plan or indirect cost rate that has been approved by VRSBD's cognizant agency, the U. S. Department of Health and Human Services;
- 4.C.2 submit a written assurance to RSA within 10 days after the final report is issued that VRSBD will submit timely cost allocation plans for review and approval, and that only the approved cost allocation plan shall be used in charging indirect costs to federal grants, as required by the federal cost principles at 2 CFR 225. In addition, VRSBD must assure that it will administer the program in a manner that ensures the proper expenditure and accounting of funds, as required by 34 CFR 361.12, 34 CFR 76.560(b), 34 CFR 80.20(a), 34 CFR 80.22(a), and the federal cost principles at 2 CFR 225; and
- 4.C.3 submit a proposal for a new indirect cost rate or cost allocation plan to the US Department of Health and Human Services for review and approval in accordance with the federal cost principles and requirements set forth at 2 CFR 225. Any new approved cost allocation plan would be applicable for the current fiscal year or future years, as appropriate. Any newly approved cost allocation plan would not be applied retroactively to prior years.

**Agency Response:** VRSBD did not submit a response.

**Technical Assistance:** VRSBD does not request technical assistance.



## **APPENDIX B: LEGAL REQUIREMENTS**

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### **Rehabilitation Act of 1973, as amended**

#### Section 101 State Plans

##### (a) Plan Requirements

##### (11) Cooperation, collaboration, and coordination

##### (B) Replication of cooperative agreements

The State plan shall provide for the replication of such cooperative agreements at the local level between individual offices of the designated State unit and local entities carrying out activities through the statewide workforce investment system

...

##### (D) Coordination with education officials

The State plan shall contain plans, policies, and procedures for coordination between the designated State agency and education officials responsible for the public education of students with disabilities, that are designed to facilitate the transition of the students with disabilities from the receipt of educational services in school to the receipt of vocational rehabilitation services under this title, including information on a formal interagency agreement with the State educational agency that, at a minimum, provides for--

- (i) consultation and technical assistance to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including vocational rehabilitation services;
- (ii) transition planning by personnel of the designated State agency and educational agency personnel for students with disabilities that facilitates the development and completion of their individualized education programs under section 614(d) of the Individuals with Disabilities Education Act;
- (iii) the roles and responsibilities, including financial responsibilities, of each agency, including provisions for determining State lead agencies and qualified personnel responsible for transition services; and
- (iv) procedures for outreach to and identification of students with disabilities who need the transition services.

#### Section 111

(a)(1) Except as provided in paragraph (2), from each State's allotment under this part for any fiscal year, the Commissioner shall pay to a State an amount equal to the Federal share of the cost of vocational rehabilitation services under the plan for that State approved under section 101, including expenditures for the administration of the State plan.

### **VR program regulations**

34 CFR 361.3 Authorized activities.

The Secretary makes payments to a State to assist in—

- (a) The costs of providing vocational rehabilitation services under the State plan; and
- (b) Administrative costs under the State plan.

#### 34 CFR 361.12 Methods of administration.

The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability.

#### 34 CFR 361.22 Coordination with education officials.

- (b) Formal interagency agreement. The State plan must include information on a formal interagency agreement with the State educational agency that, at a minimum, provides for—
  - (1) Consultation and technical assistance to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including vocational rehabilitation services;
  - (2) Transition planning by personnel of the designated State agency and educational agency personnel for students with disabilities that facilitates the development and completion of their individualized education programs (IEPs) under section 614(d) of the Individuals with Disabilities Education Act;
  - (3) The roles and responsibilities, including financial responsibilities, of each agency, including provisions for determining State lead agencies and qualified personnel responsible for transition services; and
  - (4) Procedures for outreach to and identification of students with disabilities who are in need of transition services. Outreach to these students should occur as early as possible during the transition planning process and must include, at a minimum, a description of the purpose of the vocational rehabilitation program, eligibility requirements, application procedures, and scope of services that may be provided to eligible individuals.

#### 34 CFR 361.23 Requirements related to the statewide workforce investment system.

- (a) Responsibilities as a partner of the One-Stop service delivery system. As a required partner in the One-Stop service delivery system (which is part of the statewide workforce investment system under Title I of the Workforce Investment Act of 1998), the designated State unit must carry out the following functions consistent with the Act, this part, Title I of the Workforce Investment Act of 1998, and the regulations in 20 CFR part 662:

- (3) Enter into a memorandum of understanding (MOU) with the Local Workforce Investment Board under section 117 of the Workforce Investment Act of 1998 relating to the operation of the One-Stop service delivery system that meets the requirements of section 121(c) of the Workforce Investment Act and 20 CFR 662.300, including a description of services, how the cost of the identified services and operating costs of the system will be funded, and methods for referrals.

#### 34 CFR 361.60 Matching requirements

(b) Non-Federal share —(1) General. Except as provided in paragraph (b)(2) and (3) of this section, expenditures made under the State plan to meet the non-Federal share under this section must be consistent with the provisions of 34 CFR 80.24.

### **Education Department General Administrative Regulations (EDGAR)**

#### 34 CFR 76.560 General indirect cost rates; exceptions.

(b) A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. To obtain an indirect cost rate, a grantee must submit an indirect cost proposal to its cognizant agency and negotiate an indirect cost rate agreement.

#### 34 CFR 80.20 Standards for financial management systems.

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

#### 34 CFR 80.22 Allowable costs.

- (a) Limitation on use of funds. Grant funds may be used only for:
- (1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and
  - (2) Reasonable fees or profit to cost-type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

#### 34 CFR 80.24 Matching or cost sharing.

- (a) Basic rule: Costs and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:
- (1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.

#### 34 CFR 80.40 - Monitoring and reporting program performance.

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

## **OMB circulars as cited in the CFR**

### **2 CFR 225 Appendix A**

#### **C. Basic Guidelines**

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

...

#### **3. Allocable costs.**

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

...

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

### **2 CFR 225 Appendix B**

8. Compensation for personal services.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
  - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
  - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

## 2 CFR 225 Appendix C

### D. Submission Requirements.

3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the

primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

## 2 CFR 225 Appendix E

### B. Definitions.

4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

## Workforce Investment Act

### Section 121 Establishment of One-Stop Delivery Systems

(c) Memorandum of Understanding.--

(1) Development.--The local board, with the agreement of the chief elected official, shall develop and enter into a memorandum of understanding (between the local board and the one-stop partners), consistent with paragraph (2), concerning the operation of the one-stop delivery system in the local area.

(2) Contents.--Each memorandum of understanding shall contain—

(A) provisions describing--

(i) the services to be provided through the one-stop delivery system;

(ii) how the costs of such services and the operating costs of the system will be funded;

(iii) methods for referral of individuals between the one-stop operator and the one-stop partners, for the appropriate services and activities; and

(iv) the duration of the memorandum and the procedures for amending the memorandum during the term of the memorandum; and

(B) such other provisions, consistent with the requirements of this title, as the parties to the agreement determine to be appropriate.

## Workforce Investment Act Regulations

### 20 CFR 662.230 - What are the responsibilities of the required One-Stop partners?

All required partners must:

(c) Enter into a memorandum of understanding (MOU) with the Local Board relating to the operation of the One-Stop system that meets the requirements of Section 662.300, including a description of services, how the cost of the identified services and operating costs of the system will be funded, and methods for referrals (WIA sec. 121(c))

### 20 CFR 662.270 - How are the costs of providing services through the One-Stop delivery system and the operating costs of the system to be funded?

The MOU must describe the particular funding arrangements for services and operating costs of the One-Stop delivery system. Each partner must contribute a fair share of the operating

costs of the One-Stop delivery system proportionate to the use of the system by individuals attributable to the partner's program. There are a number of methods, consistent with the requirements of the relevant OMB circulars that may be used for allocating costs among the partners. Some of these methodologies include allocations based on direct charges, cost pooling, indirect cost rates and activity-based cost allocation plans. Additional guidance relating to cost allocation methods may be issued by the Department in consultation with the other appropriate Federal agencies.

#### 20 CFR 662.300 - What is the Memorandum of Understanding (MOU)?

(a) The Memorandum of Understanding (MOU) is an agreement developed and executed between the Local Board, with the agreement of the chief elected official, and the One-Stop partners relating to the operation of the One-Stop delivery system in the local area. (b) The MOU must contain the provisions required by WIA section 121(c)(2). These provisions cover services to be provided through the One-Stop delivery system; the funding of the services and operating costs of the system; and methods for referring individuals between the One-Stop operators and partners. The MOU's provisions also must determine the duration and procedures for amending the MOU, and may contain any other provisions that are consistent with WIA title I and the WIA regulations agreed to by the parties. (WIA sec. 121(c)).